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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
MAUI ELECTRIC COMPANY, LIMITED)
For Approval to Commit Funds in)
Excess of \$500,000 for Project)
M0000241, Mobile 12.5 MVA)
Substation.)
_____)

DOCKET NO. 03-0102

DECISION AND ORDER NO. 20474

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DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

Filed Oct. 1, 2003
At 9:00 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)	
MAUI ELECTRIC COMPANY, LIMITED)	Docket No. 03-0102
For Approval to Commit Funds in)	
Excess of \$500,000 for Project)	Decision and Order No. 20474
M0000241, Mobile 12.5 MVA)	
Substation.)	
_____)	

DECISION AND ORDER

I.

On April 23, 2003, MAUI ELECTRIC COMPANY, LIMITED ("MECO") filed an application for commission approval to commit an estimated \$912,000, as revised, for Project M0000241, a mobile 12.5 mega volt ampere ("MVA") substation ("Proposed Project").¹ MECO makes its request under Rule 2.3.g.2 of General Order No. 7, *Standards for Electric Utility Service in the State of Hawaii* ("G.O. No. 7").²

Copies of the application were served on the Consumer Advocate. On May 15, 2003, the Consumer Advocate filed its preliminary statement of position indicating its participation in this docket and its intention to serve MECO

¹MECO submitted its application for the Proposed Project with an estimated cost of \$922,000. However, by letter filed on September 25, 2003, MECO revised its cost estimate for the Proposed Project to \$912,000 in response to a concern raised by the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"). Additional information on this matter is set forth below.

²For the purposes of this decision and order, "Rule" and "Paragraph" are synonymous.

with information requests ("IRs"). On June 12, 2003, the Consumer Advocate served MECO with IRs.

On July 11, 2003, MECO filed a letter requesting an extension of the Rule 2.3.g.2 G.O. No. 7 requirement that the commission act on a public utility's application filed under the rule within 90 days ("Review Period") to August 29, 2003 ("Extension Request").³ By Order No. 20333, filed on July 16, 2003, the commission approved MECO's Extension Request and concurrently required MECO to file its IR responses by July 18, 2003, and the Consumer Advocate to file its statement of position on the matters of this docket by August 18, 2003.

On July 18, 2003, MECO filed its responses to the Consumer Advocate's IRs, filed on June 12, 2003. On August 8, 2003, MECO filed responses to additional questions posed by the Consumer Advocate. By letter, filed on August 14, 2003, MECO requested that: (1) the Review Period be further extended to October 3, 2003; and (2) the Consumer Advocate be given until September 17, 2003, to file its statement of position ("Second Extension Request"). By Order No. 20393, filed on August 26, 2003, the commission approved MECO's Second Extension Request.

On September 16, 2003, the Consumer Advocate filed its statement of position informing the commission that it does not object to the approval of MECO's request to commit the funds, but objects to MECO's inclusion of Allowance for Funds Used During

³The initial Review Period for the commission to act on MECO's application in this docket expired on July 22, 2003.

Construction ("AFUDC") in the Proposed Project⁴ and expressed certain other concerns and qualifications.

II.

A.

Through the Proposed Project, MECO intends to purchase a new 12.5 MVA mobile substation for delivery in 2004. The new mobile substation includes a trailer-based transformer and protective equipment. The transformer will have primary voltages of 69 kilovolt ("kV") and 23 kV and secondary voltages of 12.47 kV and 4.16 kV. Primary protective equipment consisting of a 69 kV circuit switcher with integral disconnects and secondary protection consisting of two (2) 15 kV reclosers with controllers will be part of the unit. Additionally, the new mobile substation will have a self-powered trailer platform with ancillary transformers and an uninterruptible power system.

B.

MECO represents that mobile substations are mainly used to provide backup for the distribution system during maintenance and/or emergency load and voltage conditions. Mobile substations are said to be completely self-contained units that can be operational within hours. MECO currently has two mobile

⁴Upon review of the Consumer Advocate's concerns on AFUDC, MECO set forth its position on the issue in the letter filed on September 25, 2003. In that letter, MECO specifically disagreed with the Consumer Advocate's position, and revised its cost estimate for the Proposed Project to \$912,000 while not waiving its right to include AFUDC in similar projects in the future.

substations in service, a small 1,500 kilovolt ampere unit, constructed in 1964, and a larger 7.5 MVA unit, built in 1980. MECO represents that this Proposed Project is needed since, among other things: (1) its larger distribution substation transformers are being sized at 12.5 MVA to maximize the feeder capacity on its 69 kV transmission system; and (2) it is planning on expanding its system to include three additional 12.5 MVA units in a few years. MECO argues that as its system expands and ages, its reliance on mobile transformers will increase and that the proposed new unit, a unit with higher load capacity, will provide MECO with added flexibility to provide necessary maintenance for its existing stations and give it the opportunity to refurbish its 7.5 MVA mobile substation. MECO contends that its 7.5 MVA mobile substation, which is approaching 24 years of service, will require an extensive overhaul in the next couple of years to prevent unit failure.

C.

The Consumer Advocate concludes that the purchase of the new mobile station would appear to ensure the probability of reliable electric service for the customers that MECO serves. However, it contends that MECO: (1) appears to be underestimating the amount of load that can be transferred to its adjacent transformers; and (2) has yet to assess the reasonableness of refurbishing its existing 7.5 MVA mobile substation after its proposed 12.5 MVA mobile substation is obtained. The Consumer Advocate is aware that its concerns, as noted above,

are outside of the scope of the instant proceeding. However, conveying that these concerns could adversely impact ratepayers, the Consumer Advocate recommends that: (1) MECO should report to the commission and the Consumer Advocate the cost of refurbishing its existing 7.5 MVA mobile substation prior to committing any funds; and (2) the Consumer Advocate should be allowed to continue its review of MECO's distribution planning related to its transformers and substations. Through these recommendations, the Consumer Advocate states that it and the commission will be able to assess the reasonableness of MECO's distribution planning and the refurbishment of the existing 7.5 MVA mobile substation without impairing MECO's immediate ability to provide reliable electric service.

The Consumer Advocate notes that it will assess the reasonableness of the estimated project at the time of the final cost report or in MECO's next rate proceeding if necessary, since it will be able to review the actual costs incurred. However, at this time, the Consumer Advocate does object to the inclusion of funds for AFUDC for the Proposed Project. It conveys that inclusion of AFUDC for the Proposed Project is not consistent with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") for Class A and B Electric Utilities (1977). Based on its reading of the NARUC USOA, the Consumer Advocate states that AFUDC should not be accrued on the Proposed Project since no construction will be performed. It contends that the Proposed Project is similar to a "turn-key" project, whereby MECO will be able to use the project

upon delivery and argues that the accrual of AFUDC should be disallowed for the instant project and all such future projects.⁵

III.

Upon careful review of the record, the commission will approve the proposed expenditure of funds for the Proposed Project. Based on MECO's assertions and representations, it does appear that the Proposed Project would increase MECO's ability to ensure that its customers are provided reliable electric service.

⁵MECO disagrees with the Consumer Advocate's assessment. In response to the Consumer Advocate's concerns, MECO explained that:

All capital projects other than those mentioned below are considered "construction" projects and it is the Company's practice to accrue AFUDC on all capital construction projects. Capital projects not considered construction projects include land purchases, "turn-key" type purchases (e.g., vehicles, office machines, furniture, etc.) and pre-capitalized items ([e.g.] meters and transformers). Since this project does not fall within the exceptions noted above, it is a construction project and AFUDC should be accrued to the project. (See, Consumer Advocate's Statement of Position filed on September 16, 2003 at 12, citing MECO's response to the Consumer Advocate's informal IR question number 4, by letter filed on August 8, 2003.)

MECO also conveyed that Hawaiian Electric Company, Inc. ("HECO"), its parent company and an electric utility also under the purview of the commission, was allowed to include accrued AFUDC on a similar project in a prior docket. Specifically, MECO cited the commission's decision to allow HECO to include AFUDC for its purchase of a 12.5 MVA mobile substation in Decision and Order No. 10784, filed on October 5, 1990, in Docket No. 6758. (See, MECO's letter filed on August 8, 2003.) Additionally, in its letter dated September 25, 2003, MECO contends that the Consumer Advocate's interpretation of what constitutes construction is "too narrow".

However, the concerns noted by the Consumer Advocate regarding MECO's distribution planning practices and the refurbishing of its existing 7.5 MVA mobile substation are not inconsequential since they could adversely impact ratepayers. Nonetheless, as the Consumer Advocate recognized, these issues are outside of the scope of the Proposed Project. The recommendations advanced by the Consumer Advocate to address these concerns should allow an adequate review of the reasonableness of MECO's distribution planning practices and refurbishing of the existing 7.5 MVA mobile substation. Accordingly, we find it reasonable and in the public interest to adopt the Consumer Advocate's recommendations to address these concerns.

The Consumer Advocate's objection to the accrual of AFUDC for the Proposed Project is no longer an issue of this docket since MECO removed the AFUDC cost component from the Proposed Project's estimated costs. However, MECO did so without waiving its right to include AFUDC in similar projects in the future. In its September 25, 2003 letter, MECO specifically requests that the commission not decide in this docket whether or not AFUDC may be accrued in future projects similar to the Proposed Project and allow the parties to work out their difference on this matter outside of this proceeding. This request appears to be reasonable.

Based on the above, the commission concludes that MECO's request to expend approximately \$912,000 for Item M0000241, a mobile 12.5 MVA substation, should be approved.

We also conclude that the Consumer Advocate's recommendations, set forth on Section II.C. of this decision and order, should be adopted.

IV.

THE COMMISSION ORDERS:

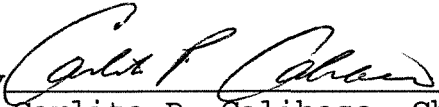
1. MECO's application to expend approximately \$912,000, as revised, for Project M0000241, a Mobile 12.5 MVA Substation, is approved; provided that no part of the project may be included in MECO's rate base unless and until the project is in fact installed, and is used and useful for utility purposes.

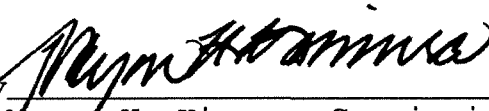
2. The recommendations of the Consumer Advocate, detailed in Section II.C. of this decision and order, are adopted.

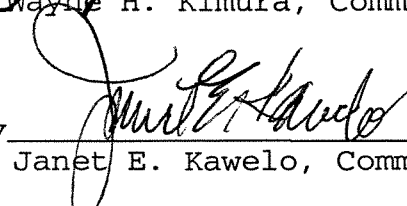
3. Within 60 days of the completion of the proposed project, MECO shall submit an accounting report with an explanation of any deviation of 10 per cent or more of the projected costs for the proposed project. Failure to submit the report, as required in this decision and order, constitutes cause to limit the total cost of the proposed project for ratemaking purposes to that estimated in MECO's application.

DONE at Honolulu, Hawaii this 1st day of October,
2003.

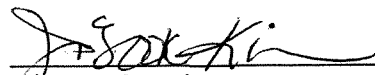
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:


Ji Sook Kim
Commission Counsel

03-0102.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 20474 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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Karen Higashi

DATED: October 1, 2003